

CITY OF BALTIMORE

WASTE WATER UTILITY FUND

FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

JUNE 30, 2001 AND 2000

(WITH REPORT OF INDEPENDENT AUDITORS)

CITY OF BALTIMORE
WASTE WATER UTILITY FUND
FINANCIAL STATEMENTS
JUNE 30, 2001 AND 2000

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CITY OF BALTIMORE

MARTIN O'MALLEY

Mayor



One North Charles

Baltimore, Maryland 21201

DEPARTMENT OF AUDITS

Room 321, City Hall

Baltimore, Maryland 21202

Report of Independent Auditors

December 12, 2001

The Mayor, City Council, Comptroller and
Board of Estimates of the City of Baltimore, Maryland

We have jointly audited the accompanying balance sheet of the Waste Water Utility Fund, an enterprise fund of the City of Baltimore, Maryland, as of June 30, 2001, and the related statements of revenues, expenses and changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the City of Baltimore, Maryland's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Waste Water Utility Fund for the year ended June 30, 2000, were jointly audited by other auditors, including the City of Baltimore, Department of Audits, whose report dated December 22, 2000, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Waste Water Utility Fund of the City of Baltimore, Maryland, and are not intended to present fairly the financial position of the City of Baltimore, Maryland, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States.

In our opinion, the fiscal year 2001 financial statements referred to above present fairly, in all material respects, the financial position of the Waste Water Utility Fund of the City of Baltimore, Maryland, as of June 30, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Yovonda D. Brooks, CPA
City Auditor
Department of Audits

Ernst & Young LLP

CITY OF BALTIMORE
WASTE WATER UTILITY FUND
BALANCE SHEETS
JUNE 30, 2001 AND 2000
(Expressed in Thousands)

	<u>2001</u>	<u>2000</u>
ASSETS		
Property, plant and equipment, net.....	\$884,194	\$843,264
Current assets:		
Cash and cash equivalents.....	24,516	17,578
Accounts receivable, net.....	9,102	11,592
Unbilled accounts receivable.....	16,358	16,700
Inventories.....	102	99
Total current assets.....	<u>50,078</u>	<u>45,969</u>
Restricted assets - cash and cash equivalents, investments and receivables restricted for:		
Future capital expenditures.....	43,394	33,321
Revenue bond debt service.....	15,837	14,397
Revenue bond contingency.....	3,280	3,068
Total restricted assets.....	<u>62,511</u>	<u>50,786</u>
Unamortized bond issuance costs.....	<u>3,107</u>	<u>3,233</u>
Total assets.....	<u><u>\$999,890</u></u>	<u><u>\$943,252</u></u>
LIABILITIES AND EQUITY		
Equity:		
Contributed capital.....	\$694,664	\$677,259
Retained earnings:		
Reserved for revenue bond debt service.....	19,117	17,465
Unreserved.....	63,530	54,605
Total equity.....	<u>777,311</u>	<u>749,329</u>
Liabilities:		
Long-term obligations:		
General obligation bonds and other debt payable.....	2,782	2,902
Revenue bonds payable, net.....	186,766	165,845
Vested compensated absences.....	4,924	4,274
Total long-term obligations.....	<u>194,472</u>	<u>173,021</u>
Current liabilities:		
Accounts payable from restricted assets.....	7,414	8,396
Accounts payable and accrued liabilities.....	4,844	3,254
Accrued interest payable.....	4,534	3,263
Other liabilities.....	10	10
Due to other funds - City of Baltimore.....	6,378	1,843
Current portion of long-term obligations.....	4,927	4,136
Total current liabilities.....	<u>28,107</u>	<u>20,902</u>
Total liabilities.....	<u>222,579</u>	<u>193,923</u>
Total liabilities and equity.....	<u><u>\$999,890</u></u>	<u><u>\$943,252</u></u>

See notes to financial statements.

CITY OF BALTIMORE
WASTE WATER UTILITY FUND
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN EQUITY
YEARS ENDED JUNE 30, 2001 AND 2000
(Expressed in Thousands)

	<u>2001</u>	<u>2000</u>
Operating revenues.....	<u>\$114,945</u>	<u>\$117,028</u>
Operating expenses:		
Salaries and wages.....	29,790	30,505
Other personnel costs.....	10,954	9,199
Contractual services.....	42,087	41,866
Materials and supplies.....	7,511	5,810
Minor equipment.....	1,075	858
General government overhead.....	5,467	5,454
Bad debts.....	2,228	2,154
Depreciation.....	11,540	11,860
Amortization of bond issuance costs.....	<u>92</u>	<u>123</u>
Total operating expenses.....	<u>110,744</u>	<u>107,829</u>
Operating income.....	<u>4,201</u>	<u>9,199</u>
Non-operating revenues:		
Interest income net.....	<u>6</u>	<u>159</u>
Net income.....	4,207	9,358
Add depreciation on fixed assets acquired by contributed capital.....	<u>6,370</u>	<u>6,392</u>
Increase in retained earnings.....	10,577	15,750
Retained earnings, beginning of year.....	<u>72,070</u>	<u>56,320</u>
Retained earnings, end of year.....	<u>82,647</u>	<u>72,070</u>
Contributed capital, beginning of year.....	677,259	665,443
Additions.....	23,775	18,208
Less depreciation on fixed assets acquired by contributed capital.....	<u>(6,370)</u>	<u>(6,392)</u>
Contributed capital, end of year.....	<u>694,664</u>	<u>677,259</u>
Total equity.....	<u>\$777,311</u>	<u>\$749,329</u>

See notes to financial statements.

CITY OF BALTIMORE
WASTE WATER UTILITY FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2001 AND 2000
(Expressed in Thousands)

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Operating income.....	\$4,201	\$9,199
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation.....	11,540	11,860
Amortization of bond issuance costs.....	92	123
(Increase) decrease in accounts receivable.....	2,832	(6,964)
(Increase) decrease in inventories.....	(3)	16
(Increase) in issuance costs.....	-	(686)
Increase (decrease) in accounts payable and accrued liabilities.....	1,590	(1,370)
Increase in vested compensated absences.....	650	250
Amortization of early extinguishment of debt.....	284	250
Increase in accrued interest payable.....	1,271	146
Increase (decrease) in due to other funds - City of Baltimore.....	<u>4,535</u>	<u>(2,645)</u>
Net cash provided by operating activities.....	<u>26,992</u>	<u>10,179</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of bonds, net.....	25,550	39,798
Acquisition and construction of capital assets.....	(52,470)	(39,923)
Changes in restricted assets.....	(12,202)	(22,377)
Changes in restricted accounts payable.....	(982)	626
Principal paid on revenue bonds.....	(3,968)	(3,544)
Principal paid on general obligation bonds.....	(240)	(161)
Principal paid on BANs.....	-	(9,000)
Interest paid.....	(2,750)	(1,335)
Capital contributions.....	<u>23,775</u>	<u>18,208</u>
Net cash used by capital and related financing activities.....	<u>(23,287)</u>	<u>(17,708)</u>
Cash flows from investing activities:		
Interest on investments.....	<u>2,756</u>	<u>1,494</u>
Net increase (decrease) in cash and cash equivalents.....	6,461	(6,035)
Cash and cash equivalents, beginning of year.....	<u>24,026</u>	<u>30,061</u>
Cash and cash equivalents, end of year.....	<u><u>\$30,487</u></u>	<u><u>\$24,026</u></u>
Reconciliation of cash and cash equivalents:		
Unrestricted cash and cash equivalents.....	\$24,516	\$17,578
Restricted cash and cash equivalents.....	<u>5,971</u>	<u>6,448</u>
Total cash and cash equivalents.....	<u><u>\$30,487</u></u>	<u><u>\$24,026</u></u>

See notes to financial statements.

CITY OF BALTIMORE
WASTE WATER UTILITY FUND
NOTES TO FINANCIAL STATEMENTS

1. Description of the Utility:

The Waste Water Utility (the Utility) is a separate utility within the Bureau of Water and Waste Water, which is one of the four bureaus in the City of Baltimore, Maryland's Department of Public Works. In November 1978, the voters approved a Charter Amendment establishing the Utility as a separate enterprise and required it to be financially self-sustaining and operated without profit or loss to the other funds or programs of Baltimore City (the City).

These financial statements are only of the Utility, an enterprise fund, and are not intended to present the financial position of the City, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds in conformity with accounting principles generally accepted in the United States (GAAP).

2. Summary of Significant Accounting Policies:

The accounting and financial reporting policies of the Utility conform to GAAP and reporting standards as promulgated by the Governmental Accounting Standards Board (GASB) for proprietary funds.

GAAP allows governments to choose either not to implement, in proprietary fund types, pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989, unless those pronouncements are specifically adopted by GASB (provided that this is applied on a consistent basis) or to continue to follow FASB standards for these fund types. The City has elected not to implement FASB pronouncements issued after that date for its proprietary fund types.

Basis of Accounting:

The financial statements have been prepared on the accrual basis of accounting whereby revenues are recorded at the time they are earned and expenses are recorded when incurred.

Cash and Cash Equivalents:

Cash and cash equivalents include amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired by the Utility.

Investments:

Investments are reported at fair value. Investments with maturities of less than one year from purchase date are reported at cost which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price.

Inventories:

Inventories are stated at cost, using the moving average cost method.

Unbilled Waste Water Utility User Charges:

Unbilled waste water user charges are estimated and accrued at year end.

Property, Plant and Equipment:

Property, plant and equipment are stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives, as follows:

Buildings.....	50 years
...	
Improvements.....	20-50 years
Equipment.....	2-25 years
Mobile Equipment.	5-10 years

Depreciation recognized on assets acquired or constructed with contributed capital is closed to the contributed capital.

Amortization:

Bond issuance costs are amortized over the life of the issue using the straight-line method, the effect of which is not materially different than under the effective interest method. Gains and losses on the early extinguishment of debt are amortized over the shorter of the life of the new or old debt.

Sick, Vacation and Personal Leave:

Employees earn one day of sick leave for each completed month of service; there is no limitation on the number of sick leave days that may be accumulated. A portion of unused sick leave earned annually during each twelve month base period may be converted to cash for a maximum of three days, computed on an attendance formula. Upon retirement with pension benefits, or termination of employment after completion of twenty or more years of service without pension benefits, employees receive one day's pay for every four sick leave days accumulated and unused as of the date of separation; under any other conditions of separation, unused sick leave is forfeited. At June 30, 2001, it is estimated that accumulated non-vested sick leave for the Utility approximated \$5,445,000. Sick leave benefit expenses are not recorded until paid, except that vested unused sick leave for employees with 20 or more years of service is recorded when leave is earned.

Employees can accumulate a maximum of 224 vacation and personal leave days depending upon length of service, which may be taken either through time off or carried until paid upon termination or retirement. Accumulated vacation and personal leave expenses are recorded when leave is earned.

The total vacation, personal leave and vested unused sick leave recorded as a liability at June 30, 2001 and 2000 is \$4,924,000 and \$4,274,000, respectively.

3. Cash Deposits and Investments:

The Utility participates in the City's pooled cash account. At June 30, 2001 and 2000, the Utility's share of the City's pooled cash account, including both restricted and unrestricted cash, was \$24,991,000 and \$17,578,000, respectively. All of the City's cash deposits are either insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held in the name of the City by the City's agent.

In accordance with State law, the City is authorized to invest in direct or indirect obligations of the U.S. Government, certificates of deposit, and repurchase agreements. City policy requires that securities underlying repurchase agreements must have a market value of at least 100% of the cost of the repurchase agreement and the City takes possession of the securities when the repurchase agreement's maturity is over five days. The City has complied with this policy throughout the year.

Investments at June 30, 2001 and 2000 are summarized below. Investments represented by specific identifiable investment securities are classified as to credit risk by the three categories below:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

	<u>(Expressed in Thousands)</u>		
	<u>Category</u>		<u>Carrying</u>
<u>2001:</u>	<u>1</u>	<u>2</u>	<u>Value</u>
Repurchase agreements.....	\$3,737	\$ -	\$ 3,737
U.S. Treasury and Agencies.....	<u>107</u>	<u>-</u>	<u>107</u>
	<u>\$3,844</u>	<u>\$ -</u>	<u>3,844</u>
Mutual funds.....			<u>21,915</u>
			<u>\$25,759</u>

	<u>(Expressed in Thousands)</u>		
	<u>Category</u>		<u>Carrying</u>
<u>2000:</u>	<u>1</u>	<u>2</u>	<u>Value</u>
Repurchase agreements.....	\$ -	\$15,504	\$15,504
U.S. Treasury and Agencies.....	<u>8,156</u>	<u>-</u>	<u>8,156</u>
	<u>\$8,156</u>	<u>\$15,504</u>	<u>23,660</u>
Mutual funds.....			<u>6,448</u>
			<u>\$30,108</u>

4. Restricted Assets:

Restricted assets consist of resources that are legally obligated for the acquisition and improvement of capital facilities and revenue bond repayment requirements. Restricted assets (amounts expressed in thousands) at June 30 are as follows:

	<u>2001</u>	<u>2000</u>
City pooled cash.....	\$ 475	\$ -
Cash equivalents.....	5,496	6,448
Investments.....	20,263	23,660
Accounts receivable.....	25,009	17,762
Due from other funds.....	<u>11,268</u>	<u>2,916</u>
Total.....	<u>\$62,511</u>	<u>\$50,786</u>

5. Allowance for Doubtful Accounts:

Accounts receivable are shown net of a \$1,920,000 allowance for each year presented.

6. Property, Plant and Equipment:

The cost of property, plant and equipment and the related accumulated depreciation at June 30, are as follows:

	<u>(Expressed in Thousands)</u>	
	<u>2001</u>	<u>2000</u>
Land.....	\$ 2,345	\$ 2,345
Buildings and improvements.....	504,937	504,987
Equipment.....	<u>79,501</u>	<u>77,058</u>
	586,783	584,390
Less: Accumulated depreciation.....	<u>269,906</u>	<u>258,417</u>
	316,877	325,973
Construction in progress.....	<u>567,317</u>	<u>517,291</u>
Total.....	<u>\$884,194</u>	<u>\$843,264</u>

Interest is capitalized on assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest incurred from the date of the borrowing until completion of the project, with interest earned on invested proceeds over the same period. During fiscal years 2001 and 2000, interest of \$5,879,000 and \$5,895,000, respectively (net of interest income of \$1,008,000 and \$781,000, respectively) was capitalized.

At June 30, 2001, the Utility had outstanding commitments for construction of \$52,604,000.

7. Debt (Other Than Revenue Bonds):

The Constitution of Maryland requires a three-step procedure for the creation of debt by the City of Baltimore:

- Act of the General Assembly of Maryland or resolution of the majority of Baltimore City delegates
- Ordinance of the Mayor and City Council of Baltimore
- Ratification by the voters of the City of Baltimore

A summary of outstanding debt (other than revenue bonds) applicable to the Utility (amounts expressed in thousands) as of June 30, 2001 and 2000 is as follows:

	<u>2001</u>	<u>2000</u>
General obligation bonds (a).....	\$2,228	\$2,423
Long-term financing with State of Maryland (b)..	<u>693</u>	<u>738</u>
Total.....	<u>\$2,921</u>	<u>\$3,161</u>

- (a) These general obligation bonds bear interest at rates ranging from 4.70% to 7.50% and mature serially through 2012.
- (b) Under the provisions of Chapter 445, Laws of Maryland, 1968, and Chapter 286, Laws of Maryland, 1974, loans were made available to assist in the construction of sewer facilities to counties and municipalities charged with providing sewerage facilities. These loans bear interest ranging from 6.10% to 8.19% and will be due in future years.

The following is a schedule of the principal and interest payments (amounts expressed in thousands) required as of June 30, 2001 to service the above debt payable by the Utility until maturity:

<u>Year ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Long-Term Financing with State of Maryland</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2002.....	\$ 92	\$ 63	\$ 47	\$ 44
2003.....	63	57	50	41
2004.....	162	49	54	38
2005.....	263	33	57	35
2006.....	327	12	60	31
2007 and thereafter.....	<u>1,321</u>	<u>868</u>	<u>425</u>	<u>99</u>
Total.....	<u>\$2,228</u>	<u>\$1,082</u>	<u>\$693</u>	<u>\$288</u>

8. Revenue Bonds:

The City has issued revenue bonds and revenue bond anticipation notes, the proceeds of which were used to provide funds for capital improvements of the Utility. Assets with a carrying value of \$19,117,000 at June 30, 2001, and certain revenues of the Utility are pledged as collateral for the bonds and notes. Bonds and notes outstanding (amounts expressed in thousands) as of June 30 consist of:

	<u>2001</u>	<u>2000</u>
Serial bonds series 1993-A maturing in annual installments from \$840,000 to \$1,250,000 from July 1, 2001 through July 1, 2008, with interest ranging from 4.7% to 5.5%, payable semiannually.....	\$ 8,405	\$ 9,245
Serial bonds series 1994-A maturing in annual installments from \$390,000 to \$590,000 from July 1, 2001 through July 1, 2009, with interest ranging from 4.1% to 5.0%, payable semiannually.....	4,435	4,825
Serial bonds series 1994-B maturing in annual installments from \$297,000 to \$406,000 from February 1, 2002 through February 1, 2015, with interest rate at 2.25%, payable semi-annually.....	4,933	5,236
Serial bonds series 1994-C maturing in annual installments from \$274,000 to \$387,000 from February 1, 2002 through February 1, 2015, with interest rate at 2.5%, payable semi-annually.....	4,638	4,919
Serial bonds series 1994-D maturing in annual installments from \$181,000 to \$297,000 from February 1, 2002 through February 1, 2015, with interest rate at 3.6%, payable semi-annually.....	3,306	3,519
Serial bonds series 1996-A maturing in annual installments from \$475,000 to \$745,000 from July 1, 2001 through July 1, 2009, with interest ranging from 4.5% to 5.55%, payable semiannually.....	5,500	5,975
Serial bonds series 1996-B maturing in annual installments from \$115,000 to \$208,000 from February 1, 2002 through February 1, 2017, with interest rate at 3.18%, payable semiannually.....	2,663	2,822
Serial bonds series 1998-A maturing in annual installments from \$249,000 to \$414,000 from February 1, 2002 through February 1, 2019, with interest rate at 2.87%, payable semiannually.....	5,929	6,178
Serial bonds series 1998-B maturing in annual installments from \$465,000 to \$765,000 from July 1, 2001 through July 1, 2012, with interest ranging from 3.75% to 4.8%, payable semiannually.....	7,320	7,785

Serial bonds series 1999-A maturing in annual installments from \$1,000 to \$167,000 from August 1, 2001 through February 1, 2019, with interest rate at 2.52%, payable semiannually.....	2,466	2,574
Serial bonds series 1999-B maturing in annual installments from \$400,000 to \$652,000 from February 1, 2002 through February 1, 2021, with interest rate at 2.61%, payable semiannually.....	10,324	10,324
Serial bonds series 2000-A maturing in annual installments from \$365,000 to \$1,015,000 from July 1, 2001 through July 1, 2020, with interest ranging from 4.75% to 5.625%, payable semiannually.....	13,015	13,015
Serial bonds series 2001-A maturing in annual installments from \$1,000 to \$818,594 from August 1, 2003 through February 1, 2022, with interest rate at 2.3%, payable semiannually.....	12,774	
Term bonds series 1990-B, with interest at 3.806% payable semiannually, due February 1, 2012.....	6,704	7,188
Term bonds series 1993-A with interest at 5.6%, payable semiannually, due July 1, 2013.....	7,100	7,100
Term bonds series 1993-A with interest at 5.65%, payable semiannually, due July 1, 2020.....	14,000	14,000
Term bonds series 1994-A with interest at 6.0%, payable semiannually, due July 1, 2015.....	4,330	4,330
Term bonds series 1994-A with interest at 5.0%, payable semiannually, due July 1, 2022.....	7,115	7,115
Term bonds series 1996-A with interest at 5.8%, payable semiannually, due July 1, 2015.....	5,445	5,445
Term bonds series 1996-A with interest at 5.5%, payable semiannually, due July 1, 2026.....	16,040	16,040
Term bonds series 1998-B with interest at 5.375%, payable semiannually, due July 1, 2015.....	2,540	2,540
Term bonds series 1998-B with interest at 5.0%, payable semiannually, due July 1, 2018.....	2,960	2,960
Term bonds series 1998-B with interest at 5.0%, payable semiannually, due July 1, 2028.....	13,700	13,700
Term bonds series 2000-A with interest at 5.625%, payable semiannually, due July 1, 2030.....	13,885	13,885
Bond anticipation notes series 2001-A, floating interest rate, payable monthly, due July 1, 2003.....	<u>12,776</u>	<u>-</u>
	192,303	170,720
Less unamortized charges.....	<u>749</u>	<u>998</u>
	<u>\$191,554</u>	<u>\$169,722</u>

The term bonds series 1990-B due February 1, 2012, are subject to redemption at par prior to maturity by operation of a mandatory sinking fund in annual principal amounts ranging from \$483,715 to \$729,519. The term bonds series 1993-A, due July 1, 2013, are

subject to mandatory redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2009, at annual principal amounts ranging from \$650,000 to \$800,000. The term bonds series 1993-A, due July 1, 2020, are subject to mandatory redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2014, at annual principal amounts ranging from \$850,000 to \$1,150,000. The term bonds series 1994-A, due July 1, 2015, are subject to mandatory redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2010, at annual principal amounts ranging from \$620,000 to \$830,000. The term bonds series 1994-A, due July 1, 2022, are subject to mandatory redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2016, at annual principal amounts ranging from \$875,000 to \$1,170,000. The term bonds series 1996-A due July 1, 2015, are subject to mandatory redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2010, at annual principal amounts ranging from \$785,000 to \$1,040,000. The term bonds series 1996-A due July 1, 2026, are subject to mandatory redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2016, at annual principal amounts ranging from \$1,100,000 to \$1,880,000. The term bonds series 1998-B due July 1, 2015, are subject to mandatory redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2013, at annual principal amounts ranging from \$805,000 to \$890,000. The term bonds series 1998-B due July 1, 2018, are subject to mandatory redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2016, at annual principal amounts ranging from \$940,000 to \$1,035,000. The term bonds series 1998-B due July 1, 2028, are subject to mandatory redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2019, at annual principal amounts ranging from \$1,090,000 to \$1,690,000. The term bonds series 2000-A due July 1, 2030, are subject to mandatory redemption at par prior to maturity by operation of a sinking fund on or after July 1, 2021, at annual principal amounts ranging from \$1,070,000 to \$1,755,000.

The serial bonds series 1994-A are subject to redemption prior to maturity beginning on and after July 1, 2004, at redemption prices ranging from 102% to 100% of the principal amount. The serial bonds series 1996-A are subject to redemption prior to maturity beginning on and after July 1, 2006, at redemption prices ranging from 101% to 100% of the principal amount. The serial bonds series 1998-B are subject to redemption prior to maturity beginning on and after July 1, 2008, at redemption prices ranging from 101% to 100% of the principal amount. The serial bonds series 2000-A are subject to redemption prior to maturity beginning on or after July 1, 2010, at par plus accrued interest.

Principal maturities and interest (amounts expressed in thousands) of revenue bonds and revenue bond anticipation notes are as follows as of June 30, 2001:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2002.....	\$ 4,788	\$ 7,834
2003.....	5,024	7,791
2004.....	18,536	7,705
2005.....	5,980	7,487
2006.....	6,208	7,252
2007 and thereafter.....	<u>151,767</u>	<u>80,251</u>
	<u>\$192,303</u>	<u>\$118,320</u>

In prior years, the City also defeased revenue bonds by placing the proceeds of new debt issues in an irrevocable trust to provide for all future debt service payments on the old debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the Utility's financial statements. At June 30, 2001, \$45,260,000 of such debt outstanding is considered defeased.

The Utility has various revenue bond covenants that generally require the Utility to maintain rates sufficient to meet the operating requirements of the Utility and an operating reserve as defined in the revenue bond indentures. As of June 30, 2001, the rate requirements were met, and management believes the Utility is in compliance with all significant requirements of the indentures.

9. Retirement Plan:

Classified employees of the Utility are required to join the City of Baltimore's Employees' Retirement System (ERS). The ERS is a cost sharing multiple-employer defined pension plan administered by the City of Baltimore Retirement System. The ERS provides retirement, disability, and death benefits to plan members and beneficiaries. The plan is managed by a Board of Trustees in accordance with Article 22 of the Baltimore City Code. Plan benefits may be amended only by the City Council. The Utility's share of contributions to the plan were \$1,268,000 in 2001, \$1,380,000 in 2000 and \$1,386,000 in 1999. The Utility contributed 100% of the required contribution each of the three years. The ERS issues a publicly available financial report that may be obtained by writing to the City of Baltimore Retirement Systems, Room 640 City Hall, 100 N. Holliday Street, Baltimore, MD 21202.

10. Postemployment Benefits:

City administrative policy provides that postemployment benefits, other than pension benefits, be provided to all employees of the Utility. These benefits include certain health care and life insurance benefits. All employees who retire are eligible to receive these benefits. Such benefits are accounted for on a cash basis so that payments during the current year represent benefit coverage for currently retired employees or their beneficiaries. During fiscal years 2001 and 2000, the Utility's share of the City's postemployment benefit payments were \$2,866,000 and \$2,463,000, respectively.

11. Risk Management:

The Utility participates in the City's risk management program. The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 1987, the City established the Risk Management Fund (an internal service fund) to account for and finance its uninsured risks. The City's risk financing techniques include a combination of risk retention through self-insurance and risk transfer through the purchase of commercial insurance. The Risk Management Fund services all claims for risk of loss, including general liability, property and casualty, workers' compensation, automobile physical damage and bodily injury and sundry other risks. Commercial insurance coverage is provided for each property damage claim in excess of \$750,000 with a cap of \$250,000,000. Settled claims have not exceeded this commercial coverage in any of the

past three years. The City also provides medical insurance coverage for all employees and retirees. Employees are required to pay a percentage of the annual costs of medical plans and the remaining costs are paid by the City's internal service fund.

All funds of the City participate in the program and make payments to the Risk Management Fund based on actuarial estimates and historical cost information of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. During fiscal year 2001 and 2000, the Utility's share of the City's cost was \$5,637,000 and \$5,210,000, respectively.

12. Commitments and Contingencies:

The Utility has received Federal grants in the amount of \$3,730,000 for 2000 and State grants of \$263,000 and \$1,879,000 for 2001 and 2000, respectively. Entitlement to grant resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal and State regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits in accordance with grantors' requirements. Any disallowances as a result of these audits become a liability of the Utility. As of June 30, 2001, the Utility estimates that no material liabilities will result from such audits.

The Utility has entered into a 20-year Sewerage Sludge Disposal Agreement with the Northeast Maryland Waste Disposal Authority in connection with the financing of a sludge composting facility in Baltimore City. The agreement obligates the Utility to deliver approximately 55,000 tons of sewerage sludge per year and to pay a tipping fee comparable to alternative methods currently being used by the Utility. The debt service on variable rate bonds is a component of the tipping fee. The Utility's current tipping fee expense for delivering sewerage sludge is approximately \$99.40 per wet ton.

The Utility has also entered into 20-year Service Agreements with Wheelabrator Water Technologies Baltimore L.L.C. in connection with the financing of heat drying facilities for processing biosolids at the City's Back River and Patapsco Wastewater Treatment Plants. The agreements obligate the Utility to deliver approximately 20,000 dry tons of biosolids per year at each facility and to pay a tipping fee. The debt service on the bonds is a component of the tipping fee. The Utility's current tipping fee expense for delivering biosolids is approximately \$497.00 per dry ton.

The City of Baltimore is currently negotiating with the U.S. Department of Justice and the Environmental Protection Agency to curtail possible litigation due to alleged City violations of the Clean Water Act due to past discharges and overflows from the City sewer system. The City is voluntarily entering into a Consent Decree to rehabilitate its aging sewer infrastructure and correct historical overflow mechanisms. The Consent Decree is one of many the U.S. Department of Justice is and has currently negotiated with major east coast cities with aged sewer and storm water infrastructures. The City is proactively negotiating to ramp up its remedial efforts to address discharge and overflow concerns of the State and Federal regulatory agencies. These efforts are ambitious and the cost of the construction and maintenance are estimated to range between \$500 to \$700 million dollars over the next decade and beyond. The City has committed to financing these remedial efforts through a combination of water and waste water revenue bonds in conjunction with all available State and Federal assistance.